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OFFICE OF THE  
EXECUTIVE SECRETARY  
May 22, 2001

**VIA HAND DELIVERY**

Mr. K. David Waddell  
Executive Secretary  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

**Re: *Joint Petition of Crockett Telephone Company, Inc., Peoples' Telephone Company, West Tennessee Telephone Company, Inc., and the Consumer Advocate Division of the Office of the Attorney General for the Approval and Implementation of Earnings Review Settlement Docket No. 99-00995***

Dear Mr. Waddell:

Enclosed please find the original and thirteen (13) copies of the TEC Companies' Reply Comments to Attorney General's Objection to the Proposed Memorandum of Understanding Between TEC and AT&T, for filing in the above-referenced docket. I have also enclosed an additional copy of the TEC Companies' Reply Comments, which I would appreciate your stamping "filed," and returning to me by way of our courier.

Should you have any questions with respect to this matter, please do not hesitate to contact me.

Best regards.

Very truly yours,



R. Dale Grimes

RDG/gci

Enclosures

cc: Val Sanford, Esq. (w/ enclosure)  
Timothy C. Phillips, Esq. (w/ enclosure)  
J. Richard Collier, Esq. (w/ enclosure)  
T.G. Pappas, Esq. (w/ enclosure)  
Mr. Gregory Eubanks (w/ enclosure)  
Mr. Thomas W. Ott (w/ enclosure)  
Mr. Dwight Work (w/ enclosure)

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**IN RE:**

**JOINT PETITION OF CROCKETT TELEPHONE  
COMPANY, INC., PEOPLES' TELEPHONE  
COMPANY, WEST TENNESSEE TELEPHONE  
COMPANY, INC., AND THE CONSUMER  
ADVOCATE DIVISION OF THE OFFICE OF THE  
ATTORNEY GENERAL FOR THE APPROVAL  
AND IMPLEMENTATION OF EARNINGS REVIEW  
SETTLEMENT**

**Docket No. 99-00995**

**TEC COMPANIES' REPLY COMMENTS  
TO ATTORNEY GENERAL'S OBJECTION TO  
THE PROPOSED MEMORANDUM OF UNDERSTANDING  
BETWEEN TEC AND AT&T**

Pursuant to the direction of the Pre-Hearing Officer at the Pre-Hearing Conference held on May 8, 2001, Joint Petitioners, Crockett Telephone Company, Inc., People's Telephone Company, and West Tennessee Telephone Company, Inc. (the "TEC Companies" or "TEC"), respectfully submit these Reply Comments to the Attorney General's Objection to the Proposed Memorandum of Understanding Between TEC and AT&T.

This docket was commenced with the filing of a Joint Petition by the TEC Companies and the Consumer Advocate Division of the Attorney General's office for the approval of an earnings review settlement for the period 1999 through 2001. That Joint Petition was filed in December 1999 and was preceded by months of negotiations between TEC and the Consumer Advocate's office. In the settlement, these parties agreed to the total dollar amount of the projected overearnings of the TEC Companies during the three-year period and agreed upon adjustments in each of the three years to reduce the TEC Companies' projected earnings. The settlement adjustments provided for millions of dollars in benefits to the customers of the TEC Companies, including over \$1.75 million in direct monthly credits to those customers.

In January 2000, AT&T Communications of the South Central States, Inc. ("AT&T") filed a Petition for Intervention in the docket. The Petition complained that AT&T paid access charges to the TEC Companies that were "greatly in excess of the cost of providing [access] services." AT&T sought to intervene in this docket in order to obtain reductions in the access charges it paid. The Consumer Advocate Division moved to dismiss AT&T's Petition to Intervene, but the Directors of the Tennessee Regulatory Authority denied that Motion to Dismiss, and granted AT&T's Petition to Intervene. The Consumer Advocate Division subsequently filed a Motion for Summary Judgment to dismiss AT&T's Complaint or to transfer AT&T's claims to the access charge reform docket, Docket No. 97-00889. That Motion was filed on March 7, 2000, and is still pending.

The Settlement Agreement between TEC and the Consumer Advocate contemplated that TEC would begin implementing the earnings reductions immediately, and specifically that monthly credits to its business and residence customers would begin in January 2000 and continue through the end of 2001. However, because the Earnings Review Settlement has not been approved, implementation of those revenue reductions has not been possible. In fact, the end of the three-year earnings period under review -- as well as the time for completing the earnings reductions, including the customer credits -- is now just over seven (7) months away.

In an effort to bring this matter to a resolution, TEC sought to explore the possibility of settling AT&T's claims in this docket. The initiation of discussions between TEC and AT&T was with the full knowledge of the Consumer Advocate Division. Indeed, the Consumer Advocate was invited to participate. The result of those discussions is the Memorandum of Understanding that was filed with the Tennessee Regulatory Authority on May 8, 2001. In that agreement, TEC and AT&T conditionally agreed that TEC would reduce certain rate elements

contained in its access charges to zero in four equal reductions over two years. Its only effect on the Earnings Review Settlement originally filed in this docket is to reduce an amount set aside in year 2001 for an adjustment to depreciation of approximately \$215,000.00. The total amount that had been set aside for the TEC Companies for the increase in depreciation expense in 2001 had been approximately \$989,000.00 -- well more than enough to fund the settlement with AT&T in the earnings review period.

Notably, the proposed settlement between TEC and AT&T had no effect whatsoever on the proposed customer credits nor any other customer benefits for the period under review, 1999 through 2001. When fully implemented in the year 2003, the rate reductions contemplated by the Memorandum of Understanding between TEC and AT&T will reduce earnings for the TEC Companies an aggregate \$1.8 million per year. Under these circumstances, it appears incorrect for the Consumer Advocate to assert that "[t]he TEC Companies lose nothing and have obviously bargained away the rate payer's credits."

The TEC Companies wish to bring this docket and the earnings review from which it arises to a speedy resolution. The Settlement Agreement with the Consumer Advocate has not been approved and the customer credits and other adjustments that were to have taken place over the last three years have not been implemented. The issues raised by AT&T have not been resolved even though the Consumer Advocate has sought to have them moved from this docket, and AT&T remains a party to this proceeding. It is for these reasons that the TEC Companies have entered into the agreement with AT&T to resolve AT&T's issues and permit the Authority to consider and approve the Settlement Agreement previously entered into between the TEC Companies and the Consumer Advocate.

That original Settlement Agreement will require only minor amendments resulting from the Memorandum of Understanding between TEC and A&T -- primarily, the amount of depreciation increase for the year 2001 must be reduced by approximately \$215,000.00 and the overearnings for the period will be reduced by that amount. Other minor amendments to the Settlement Agreement will be required to extend the time for implementing the customer credits and other adjustments necessary for an orderly implementation of the Settlement Agreement due to the passage of time.

For all the foregoing reasons, the TEC Companies respectfully submit that approval of the Memorandum of Understanding between the TEC Companies and AT&T is the best way to bring about a early resolution of this docket, and accordingly, they seek approval of that Memorandum of Understanding and the original Settlement Agreement.

Respectfully submitted,



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*Attorneys for Crockett Telephone Company,  
Inc., Peoples' Telephone Company, and  
West Tennessee Telephone Company, Inc.*

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of TEC Companies' Reply Comments to the Attorney General's Objection to the Proposed Memorandum of Understanding Between TEC and AT&T has been served upon the following, via the method(s) indicated, this the 22 day of May, 2001:

☒ Hand  
☐ Mail  
☐ Federal Express

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P. J. Gurnis